Sempra Energy
Trading

SEMPRA INFORMATION

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6.	Date of Incorporation:	1/22/92
7.	Bank/Trade References:	Attached

8. Parent Company Guaranty available? Yes

9. **Parent Company:** Sempra Energy
101 Ash Street
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World Wide Web site: www.sempra.com

New York Stock Exchange listed (Ticker:SRE)
Equity Market Capitalization at 3/1/2000: US$4.33 billion

Public Debt Ratings: Moody's Investors Service: Long term unsecured: A2
Standard & Poors Corporation: Long term unsecured: A

DUNS numbers: Sempra Energy: 02-2715408 Rating: 5A2
Sempra Energy Trading Corp.: 60-9746565

Financial Statements: Attached

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Research:

Return to Regular Format

Sempra Energy's, Units' Ratings Are Affirmed; Outlooks Still Negative

Publication Date: 04-Jan-2001

Analyst: John Kennedy, New York (1) 212-438-7670; Richard W Cortright, Jr. , New York (1) 212-438-7665

NEW YORK (Standard & Poor's CreditWire) Jan. 4, 2001--Standard & Poor's today affirmed its ratings on Sempra Energy (A/Negative/A-1), its utility subsidiaries San Diego Gas & Electric Co. (SDG&E; AA-/Negative/A-1+) and Southern California Gas Co. (AA-/Negative/ A-1+; SoCalGas), and other units. The outlooks remain negative. The outlook reflects the highly politicized and unstable regulatory environment in California, which in turn is a function of the meltdown in the power markets in the state. It also reflects the possibility of modestly higher leverage over the next year as SDG&E turns to the capital markets to help fund its purchased-power requirements. Standard & Poor's anticipates any rating downgrade would be very modest, in stark contrast to today's rating actions related to the state's other two investor-owned utilities, Pacific Gas & Electric Co. and Southern California Edison Co.

OUTLOOK: NEGATIVE

The negative outlook reflects the anticipated gradual increase in leverage through 2001 by SDG&E to satisfy increasing levels of deferred purchased-power costs, Standard & Poor's said. -CreditWire

(A complete list of ratings is available on RatingsDirect, Standard & Poor's on-line credit research service, or by calling the Standard & Poor's Ratings Desk at (1) 212-438-2400.)

S&P Comments on Calif. Public Utility Commission Action 01/05/2001 PR Newswire (Copyright (c) 2001, PR Newswire) NEW YORK, Jan. 5 /PRNewswire/ -- Standard & Poor's electric utility credit analyst Richard Cortright today said in a teleconference that yesterday's rate action by the California Public Utility Commission was "manifestly inadequate" if the commission's goal, as stated, was to support the state's two major utilities' ability to access the capital markets and maintain themselves as ongoing enterprises.

However, Standard & Poor's views the fact that the California state legislature is in special session to address the crisis in the state's power markets, including a meaningful solution to the threat of financial insolvency facing Pacific Gas & Electric Co. and Southern California Edison, as positive enough at this time to stave off a downgrade of the utilities' ratings to below investment-grade, Mr. Cortright said.

However, that also could change, he said.

"While Standard & Poor's is not prepared today to assume that the state assembly will fail, our surveillance of developments within the legislature will be intense and constant, and a further ratings downgrade remains a real possibility. Therefore, the ratings remain on CreditWatch with negative implications," Mr. Cortright said.

Yesterday, Standard & Poor's downgraded the corporate credit ratings of both utilities to BBB-minus, the rating level one notch above speculative grade.

A transcript of the introductory remarks by Mr. Cortright, who was accompanied by several members of Standard & Poor's electric utility analytical team, including Ron Barone and James Penrose, follows:

"There are several points that we want to address with respect to Standard & Poor's ratings actions yesterday on Pacific Gas & Electric and Southern California Edison and their affiliates," Mr. Cortright began.

"First, though, because we have an extraordinary number of callers, befitting these extraordinary circumstances, there are likely to be many listeners who may not necessarily be familiar with what precisely Standard & Poor's role is in the financial markets. For those of you who do understand this role, I would ask your forbearance for just a moment.

"The credit ratings that Standard & Poor's issues reflect our independent opinion of the general creditworthiness of an obligor, or the creditworthiness of an obligation with respect to a specific debt security. Standard & Poor's is not affiliated with any investment banking firm, bank, or similar organization, and has no advocacy role at all. Our overriding goal is to provide investors with an independent and objective assessment of a company's financial condition.

"With that out of the way, let me address very briefly the items that my colleague Ron Barone outlined and a few questions that I know are on the minds of many of you. **First, in stark contrast to the actions that we took on PG&E and SCE yesterday, Standard & Poor's affirmed its ratings on Sempra Energy and its two utility affiliates, San Diego Gas & Electric and Southern California Gas Co.**

"The affirmations were based on several characteristics that distinguish Sempra Energy from California's other utilities. These include supportive legislation that enables SDG&E to establish and ultimately recover any balancing account amounts related to the shortfall between purchased-power costs and ratepayer revenues.

"In addition, Sempra Energy's other large and financially very strong utility subsidiary, SoCalGas, provides a stabilizing influence on the consolidated credit of the Sempra Energy family. Finally, to date, SDG&E has not had to access capital markets in order to pay power bills to the California Independent System Operator. However, the negative outlook anticipates this will change, though in relatively modest amounts, over the next year.

"Next, why are PG&E's first mortgage bonds rated higher than the corporate credit rating? It is Standard & Poor's analytical conclusion that these instruments are sufficiently overcollateralized to merit a higher rating based on the very strong prospects of full recovery in the case of a default.

"Regarding the BBB-minus unsecured ratings of PG&E and SCE and why they are not notched down from the secured ratings, Standard & Poor's has concluded that the relatively modest amount of first mortgage bonds outstanding at the companies does not sufficiently disadvantage the unsecured obligations for them to be notched downward.

"The actions by the California Public Utilities Commission yesterday were manifestly inadequate if the commission's goal, as stated, was to support the utilities' ability to access the capital markets and maintain themselves as ongoing enterprises. The implications of raising rates only a penny when the utilities continue to have to procure power at prices that are between 6 and 10 times as high as the amounts permitted to be recovered for each kWh delivered to ratepayers are pretty clear: insolvency is eventually unavoidable. One commissioner was quoted as saying that the CPUC's vote yesterday was the epitaph for deregulation. In the absence of action from any other quarters, it is our opinion that the vote was the epitaph for PG&E and SCE. But it is precisely because the CPUC's actions do not constitute the burial shroud that the free-fall of Standard & Poor's ratings was halted at the BBB-minus level.

"Other venues are in active deliberation. The most important of these is the legislature. It is premature, we believe, to assume that the current special session of the legislature, which was called by California Gov. Gray Davis specifically to address the power crisis, will fail in its efforts to devise the mechanisms necessary to prevent the insolvency of the utilities. A speculative grade decision yesterday would have been our signal that we have little to no expectation that the legislature has the political will to craft a solution.

"We at Standard & Poor's, of course, recognize that a political solution, which this one has to be, may not unfold in as rapid a fashion as we would like, but it at least is unfolding, and in Standard & Poor's estimation, there is a strong recognition among the legislators, and especially among the leadership, that action must be taken in very short order if they wish to avoid a bankruptcy.

"While Standard & Poor's is not prepared today to assume that the state assembly will fail, our surveillance of developments within the legislature will be intense and constant, and a further ratings downgrade remains a real possibility, and therefore the ratings remain on CreditWatch with negative implications.

"Why specifically BBB-minus? As I mentioned, a speculative-grade rating would indicate Standard & Poor's loss of faith that any resolution is forthcoming. The rating level itself is our best effort to gauge the level that any legislative action, such as securitization, rate increases and the like, will support over the foreseeable future, absent insolvency.

"The answer to the immediate crisis lies with re-opening the financial markets to the utilities. It is our belief today that the legislature understands this. The trick of course is to translate understanding into action, quickly," Mr. Cortright concluded.

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/CONTACT: Richard Cortright, 212-438-7665, or David Bodek, 212-438-7969; or Media - Christina Pretto, 212-438-2757, or Christopher Mortell, 212-438-2756, all of Standard & Poor's/ 18:18 EST

Moody's Investors Service
Global Credit Research

Fundamental Credit Research
Rating Action
Published 8 Jan 2001

SEMPRA ENERGY

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MOODY'S AFFIRMS ITS RATINGS OF SEMPRA ENERGY AND SAN DIEGO GAS AND ELECTRIC COMPANY

Rating Outlooks Remain Negative

New York, January 08, 2001 -- Moody's Investors Service has affirmed the securities ratings of Sempra Energy (Senior Unsecured Debt at A2) and the debt ratings of San Diego Gas and Electric Company (SDG&E: Senior Secured Debt at Aa3). The rating outlooks for both companies remain negative.

The rating affirmation reflects the passage of Senate Bill 265 in early September 2000, which legislates that SDG&E has a reasonable opportunity to recover wholesale power costs that are in excess of the 6.5 cent rate freeze in place through December 2002. Additionally, SDG&E is only required to secure power for residential and small commercial customers causing the size of the undercollection balance to be modest relative to the size of the balance for the other two California investor-owned electric utilities. To date, SDG&E has funded the bulk of this balancing account from internal sources.

The negative outlook for SDG&E reflects the somewhat unstable regulatory environment that currently exists in California as well as the likelihood that debt levels will increase at SDG&E during 2001 to fund the undercollection of wholesale power costs.

Sempra's A2 rating is largely dependent on the cash flows at SDG&E and Southern California Gas Company (SoCalGas: Senior Secured Debt at A1; Stable Outlook), a large natural gas distribution company. The negative rating outlook for Sempra reflects the increased debt requirements expected at SDG&E to fund wholesale power costs as well as the unsettled state of deregulation within the state of California.

Headquartered in San Diego, California, Sempra is a diversified energy services company, whose principal regulated businesses are SDG&E and SoCalGas.

any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. Pursuant to Section 17(b) of the Securities Act of 1933, MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,000 to $1,500,000. MADE IN U.S.A

Moody's Investors Service
Global Credit Research

Fundamental Credit Research
Summary Opinion
Published 8 Oct 2000

Sempra Energy

Parent: SEMPRA ENERGY
San Diego, California, United States

Ratings and Contacts

Category	Moody's Rating
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	A3
Preferred Shelf	(P)"a3"
Southern California Gas Company	
Senior Secured	A1
Senior Unsecured	A2
Preferred Stock	"a2"
Commercial Paper	P-1
Sempra Energy Global Enterprises	
Bkd Sr Unsec Shelf	(P)A2
Bkd Commercial Paper	P-1
San Diego Gas & Electric Company	
Issuer Rating	A1
Senior Secured	Aa3
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Operating Statistics

Sempra Energy[1]

	[2]2000	1999	1998	1997	[3]3-Yr.Avg
Revenue (US$ bil.)	5.7	5.4	5.5	5.1	--
Assets (US$ bil.)	13.0	11.3	10.5	10.8	--
Com. Equity (US$ bil.)	2.4	3.0	2.9	3.0	--
Op. Margin (%)	16.6	15.0	11.8	18.7	15.1
ROA(%)	3.7	3.6	2.8	--	3.2
ROE(%)	16.4	13.4	10.0	--	11.7
Pretax Int. Cov. (X)	3.6	3.6	3.1	4.6	3.8
FFO Int. Cov. (X)	4.8	4.4	5.1	6.3	5.2
FFO % Total Debt	29.4	23.9	26.6	28.5	26.3
RCF % Gross CAPEX	101.5	68.9	118.5	196.7	128.0
Total Cap. (US$ bil.)	6.3	6.4	6.3	7.0	--
TD % Cap.	55.1	50.4	50.4	54.0	51.6
Pfd. Stk. % Cap.	6.4	3.2	3.2	4.0	3.5
Common % Cap.	38.5	46.4	46.3	42.0	44.9

[1] 1997-1999 include capitalization and coverage ratios issuance of the securitization bonds. [2] For the 12 months ended June 30; Balance sheet items are as of June 30. [3] Three year average 1999-1997.

Electric Utility Operating Statistics

Customer Segmentation	Residential	Commercial	Industrial	Wholesale	Total
Revenue (US$ mil.)	662.4	591.8	154.3	10.2	1,818.0
Kwh(mil.)	6327	6284	2034	383	15102
c/Kwh	10.5	9.4	7.6	2.7	12.0
Competitive Position	**Fuel**	**Non-Fuel**	**Investment**	**Total Cost**	**Regional Cost**
$ per Mwhr.	5.10	25.34	93.02	123.45	35.96

[1] 1997-1999 include capitalization and coverage ratios issuance of the securitization bonds. [2] For the 12 months ended June 30; Balance sheet items are as of June 30. [3] Three year average 1999-1997.

Opinion

Rating Rationale

Sempra Energy's (Sempra) A2 senior unsecured rating reflects the high quality and predictable sources of cash flow generated from dividends upstreamed by its two utility subsidiaries, San Diego Gas and Electric Company's (SDG&E: senior debt - Aa3) and Southern California Gas Company (SoCalGas:senior debt - A1).

The rating also incorporates Sempra's plans to grow the non-utility business from acquisitions and investments made through Sempra Energy Global Enterprises (SEGE) in complimentary domestic and international energy businesses. The rating further considers the structurally subordinate position of Sempra's obligations and the limitations placed on SDG&E's and SoCalGas' dividends by the California PUC.

Recent Developments

In January 2000, Sempra announced that it had reduced its common dividend by about 36% and had repurchased common stock for about $720 million, enhancing cash flow by $110 million annually.

Due to the unprecedented increase in wholesale electric prices during the summer 2000, AB 265 was signed into law in early September 2000. The bill caps the energy component of electric bills at 6.5 cents per kilowatt hour for most of SDG&E customers through December 31, 2002, retroactive to June 1, 2000. The bill allows for the creation of a balancing account that would track the costs of providing electric service to SDG&E customers that are in excess of the rate cap. The bill also gives the utility the reasonable opportunity to recover these costs of service over an undetermined time frame.

Rating Outlook

Sempra's rating outlook is negative due to the passage of legislation in California which transfers the financial burden associated with securing electric supply from end-users to SDG&E. Additionally, the outlook change reflects the unsettled state of deregulation in California.

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Equity Research
North America

United States of America

Electric Utilities

Sempra Energy

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Initiating Coverage

March 6, 2001

Overlooked and Undervalued

OUTPERFORM	
Price (March 5, 2001):	$22.50
Price Target:	$32
52-Week Range:	$24.87-16.18

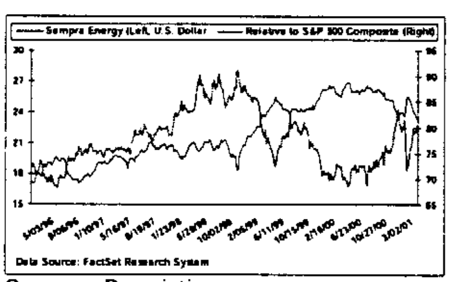
We are initiating coverage of SRE with an Outperform recommendation
We see near-term value of nearly $32 a share in SRE, representing nearly 40% upside from current levels.

Management not happy with value, neither are we
Buried value of $20-plus per share in unregulated unit. Management talking about corporate separation if value doesn't return soon.

Sempra is a safer way to play California
SRE has a deal which allows it to recover its unrecovered power costs ($1.80 a share at 1/31/01). Unlike the other California utilities, SRE has not defaulted on any of its trade or creditor obligations.

We think our above-Street estimates are conservative
We're at $2.35 for 2001 (Street: $2.20) and $2.55 for 2002. Trading growth and new projects, not in numbers, adds to upside potential.

Price: Abs. and Rel. to Market and Sector



Company Description

SRE owns two major So. California utilities - San Diego Gas & Electric and Southern California Gas, the nation's largest natural gas distributor. Together, the two utilities serve about 7 million customers. Sempra Energy Trading (SET) is a top-10 gas trader and top-15 power trader. SET contributes nearly one-third of consolidated earnings.

FY ending Dec 31:	1999A	2000A	2001E	2002E
EPS ($)	1.72	2.20	2.35	2.55
Prior EPS Ests. ($)			NA	NA
Consensus EPS Ests. ($)	NM	NM	2.20	2.30
CEPS ($)	4.90	4.72	5.09	5.37
P/E	13.1	10.2	9.6	8.8
P/E - Group Averages	NA	12.1	11.3	10.5
P/CE	4.6	4.8	4.4	4.2
Price/Book	1.79	1.82	1.64	1.47
EV/EBITDA	-	-	-	-
Yield (%)	6.93	5.07	4.44	4.44

Market Cap ($ m)	4,590
Enterprise Value ($ m)	9,408
Debt/Cap (12/00)(%)	55.6
Return on Equity (12/00)(%)	16.7
L-T EPS Grth. ('00 - '05) (%)	8-10
P/E to Growth ('02E)	0.88
Shares Outstanding (m)	201.9

Q'rtly EPS	2000 actual	2001E curr	2001E prior	2001E curr	2001E prior
Q1	0.49	-	-	-	-
Q2	0.55	-	-	-	-
Q3	0.70	-	-	-	-
Q4	0.47	-	-	-	-

E = Morgan Stanley Dean Witter Research Estimates

Overlooked and Undervalued

Summary and Investment Conclusion
We are initiating coverage of Sempra Energy with an Outperform recommendation. The shares are trading at 9.6 times our 2001 earnings per share estimate and yield about 4.5% versus group averages of 11.3x times and 4.4%.

SRE is a mid-sized play on our unregulated generation theme and offers upside potential through a potential spin-off of its higher growth businesses, in our opinion.

Our price target is $32 a share and is based on a Sum-of-the-Parts methodology. We've conservatively utilized group average multiples on each of the company's business segments. From current levels, SRE shares offer investors nearly 40% upside potential.

We see three near-term catalysts which should lead to multiple expansion:

- **Resolution to the California situation.** SRE has wrongly suffered from guilt by association as the legislature already approved full recovery of its purchased power costs, its debt ratings have been maintained, and it has paid all trade and creditor bills. We see any potential sale of the company's transmission assets (under the Governor's California "rescue" plan) as being earnings neutral and we can envision scenarios where it becomes earnings accretive.

- **Potential spin off of unregulated business.** Trading and marketing business is worth about $17-23 per share while the utility is conservatively worth $20-24, by our estimates. The trading business contributed $0.75 a share to 2000 results, or 33% of total, and the unregulated operation accounted for nearly 18% of consolidated results. Management is disappointed with the current stock price and has articulated that it will do what it takes to unlock this value.

- **Earnings upside potential.** Two new gas projects — the Baja pipeline and the Nova Scotia distribution system — are expected to be fully running by 2003 and are not included in our estimates. Upside potential in trading through Sempra Energy Trading, formerly known as AIG.

Our earnings estimates for 2001 and 2002 are $2.35 and $2.55 a share, respectively. Our estimate is above management guidance of $2.20; we believe our above-consensus estimates are conservative. Management has previously stated that it thought the company could grow 8-10% and our modeling supports this projection.

Overlooked and Undervalued
Our calculations indicate underlying value of SRE shares of $32-40. Our target price of $32 a share, suggests nearly 40%-plus upside from current market valuation.

We think the appropriate way to value SRE is through the Sum-of-the-Parts methodology as the current valuation ascribed by the market is not reflecting its underlying fundamentals, or the potential we see if the company moves to spin off the unregulated business unit. This unregulated unit, by our calculations has value of nearly $20 a share; in essence, new shareholders get a free call option buried within SRE's share price.

In Exhibit 1, we outline the valuation we see in each business segment.

Exhibit 1
Sempra Energy
Sum of the Parts Valuation
($ per share)

	'02 Earnings	Multiple	Value
Utility	$1.96	11.0x	$21.59
Trading	$0.55	20.0x	11.09
Generation	0.25	20.0x	4.95
International	0.22	20.0x	4.46
Parent	(0.54)	11.0x	(5.99)
Sum of Parts			$36.10
10% congl. disc			(3.61)
SRE Value			$32.49

Source: Morgan Stanley Dean Witter Equity Research.

By our calculations, the utility operation, even at conservative multiples is worth $20-24 a share based on ongoing earnings power of $1.90-2.00 a share. We have used a blended multiple based on average gas LDC (13x) and electricity distribution (11x) multiples. SRE's regulated earnings mix consists of approximately 54% gas and 46% electric.

The trading and growing generation business, even at what we consider to be restrictive market parameters suggests value of at least $15 a share. The financial business is worth $1.00-1.50 a share, by our calculations. We place no value on the remaining businesses.

To go a step further, we recognize that valuing the unregulated trading unit creates a greater dispersion about the valuation of the shares.

In 2000, the trading operation earned $0.75 a share (34% of consolidated). In management's 2001 guidance of $2.20 a share, they don't assume a repeat performance, in fact, we believe that internal forecasts call for a nearly 50% reduction in contributions.

Early 2001 indicators suggest that market prices remain very volatile and SRE in our view is likely to outpace its earlier guidance. We've used the same restrictive market metrics and looked at the trading under a worst, likely and best case scenario, with the best case being flat year-over-year contributions. The worst case assumes trading income is cut in half. Under this method, we still see value of nearly $8-10 a share, thereby still supporting our thesis that SRE shares should outperform.

And finally, the argument that SRE should be valued as a trading institution also shows upside from here. For instance, if we use the 2002 FirstCall consensus EPS estimate for Morgan Stanley, the investment bank is trading at 12.0 times projected earnings. At 12 times our 2002 estimate, SRE would be valued at nearly $30 a share, or nearly 33% above current levels.

Corporate Separation in the Offing? Management Not Happy with Market Value

With the California situation now moving closer to being resolved, we expect the share price to continue to rise, at least to a group level multiple. That being said, CEO Baum has said that if he doesn't get the value in his stock, he is willing to consider other options such as spin-offs, joint ventures, etc.

This Unregulated Growth Story Has Legs

SRE has three main unregulated businesses — SRE trading, international, and generation. Combined, these three units contributed nearly $1.06 a share, and in our opinion, are the drivers behind the value we see in the shares.

SRE acquired its trading and marketing business in 1999 from AIG for $190 million. Although the trading operation doesn't normally appear at the top of the league tables amongst the power traders (No. 16), it is a top-10 gas trader (No. 6) and is one of the more profitable trading operations.

Operating margins have shown sequential increases, rising from $20 million in 1Q99 to $165 million by the end of 4Q00. Profits have risen at a commensurate rate and for 2000, SRE trading contributed $0.75 a share (versus $0.08 a share in 1999) to consolidated results. In our view, this has been a well-managed, but often overlooked aspect of the SRE story.

In Exhibit 2, we outline the increases in gross margin, and the increases in volumes traded since the acquisition, by quarter.

Exhibit 2

Sempra Energy Trading

($ millions, except per share data)

	2000	1999
Operating Margin		
1Q	$73	$20
2Q	134	31
3Q	149	41
4Q	165	49
Total	$521	$141
Net Income	$155	$19
Op. inc per share	$2.58	$0.68
Net income per share	$0.74	$0.08
Annual Trading Volumes		
Gas (bcf/d)	8.9	5.8
Electric (tWh - annual)	61.1	19.8
Oil & liquids (mmbbl/d)	2.1	2.1

Source: Company reports.

The international operations consist primarily of investment in Latin America distribution companies. At year end 2000, the company had about $850 million of equity invested in 10 distribution companies. But the hidden aspect is that SRE has two new projects which could add to the contributions in the medium term. The first is the Baja pipeline project, a 30" 135 mile pipe flows along a critical path along the US/Mexican border and has supply opportunities to about 3,400 mw of new unregulated generation that is under construction in this region. When fully operational, which we expect beginning in 3Q02, this business alone could contribute $0.10-0.20 a share annually in earnings, which are currently not in our estimates (assuming $4 gas and $0.40 in transport costs)

The second project is the Nova Scotia distribution system where SRE will build and operate the system. The company plans to invest $700 million and the system should be fully operational by 2008 where it's expected to serve about 275,000 customers. Gas will flow into the system from the new Maritimes and Northeast Pipeline, which crosses Nova Scotia.

The nascent merchant operation currently has 250 mw of capacity and has plans to expand by 5,000-10,000 mw by 2010. In Nevada, the business has a 50% interest in the El Dorado project with Reliant Energy. The project contributed $33 million, or $0.16 a share, to 2000 results.

Exhibit 3

Sempra Energy

Unregulated Generation Business

(mw, figures shown represent SRE's share)

	2000A	2001E	2002E	2003E	2004E
Operational					
El Dorado 1 - May '00	250				
Advanced development/construction					
El Dorado 2 - Apr '03				250	
Elk Hills - Feb '03				250	
Mesquite 1 - Jun '03				500	
Mexicali - June '03				500	
Montgomery - Jun '03				500	
Mesquite 2 - Jan '04					500
Cedar Bluff - Mar '04					500
TOTAL	250	0	0	2,000	1,000
Cumulative	250	250	250	2,250	3,250

Source: Company reports; Morgan Stanley Dean Witter Equity Research.

SRE is Different From the Other California Utilities

Unlike the two other California utilities, SRE is different in three major respects:

- the company has not missed any debt or trade payments and its ratings have been maintained at investment grade. Sempra Energy is rated A; San Diego Gas & Electric AA-; and, Southern California Gas AA-. Outlook is negative although in its most recent rating action, S&P indicated that any "rating downgrade would be very modest" (1/4/01);
- the company has ended its rate freeze;
- the California legislature approved full recovery of unrecovered purchased power costs under AB 265 for SRE last summer. Any additional net short positions would be covered under ABX-1. More importantly, during the nuclear refueling outage, the DWR is responsible for covering SRE's position.

The company has a regulatory filing before the CPUC setting fuel rates at $65 per mWh. Power purchases below this embedded rate go towards reducing the deferrals SRE has, which, as of January 31, 2001, stood at $605 million. As part of the filing, the company has asked for a $23 per mWh surcharge to reduce this undercollection. By our calculations, regulatory approval of this surcharge means that it should take SRE about 15 months to recover these costs at current retail sales levels.

Earnings Outlook

In Exhibit 4 below, we outline SRE's projected earnings by segment through 2002.

The assumptions underlying our estimates are relatively straightforward:

- Utility earnings essentially remain flat;
- trading operations in 2001 decline by about one-third although continued market volatility means these numbers could be understated;
- modest growth, in the aggregate, out of the other non-regulated businesses — the full year contribution from El Dorado power plant; underlying growth at the international gas LDCs. Our numbers do not include the Baja pipeline or the two new gas distribution properties being developed in Canada and Maine;
- some modest savings at the parent level due to debt paydown and cutting other parent level drags;
- no share buybacks. The company has a $100 million buyback program in place that has been mostly unutilized at this time.

A Quick Discussion on Solving the California Crisis. We have *not* assumed in our forecast that the company sells its transmission assets to the state, although we expect the transaction to occur. Those assets currently have a book value of about $433 million, are capitalized 50/50 debt/equity and earn an undisclosed (confidential settlement with FERC) return of less than 9.5%. We've assumed a 9% return, indicating the assets earn about $0.10 a share.

Assuming the transco assets are sold to the state for 2.3x book, the net unallocated cash from this transaction should be about $625 million. Of the $1 billion in proceeds, $160 million will go to pay taxes on the above-book portion and $217 million will be used to reduce debt.

The $0.10 a share in lost earnings would be partially offset by the absence of interest expense ($0.05 a share), leaving the company with less than 5 million shares under a buyback to make the transaction neutral to earnings. At $22 a share under a buyback, this leaves the company with discretionary cash of $500-525 million.

Company Description

Sempra Energy is the parent company of two utilities - San Diego Gas & Electric and Southern California Gas, the nation's largest natural gas distribution company. Together, the two utilities serve about 7 million customers. The utility operations comprise approximately 77% of consolidated revenues, and in 2000, contributed 83% of the total earnings.

Sempra's unregulated businesses consist of Sempra Energy Trading, which trades natural gas, power, and petroleum on the wholesale market in the United States and Europe. Sempra International is the company's unregulated power generation business with about 250 mw currently in operation and slated to expand to 10,000 mw by 2005-07. The company also has a financial services business that owns various limited partnerships that invest in affordable housing units.

Exhibit 4

Sempra Energy
Earnings Segments, 1999A-2002E

($ millions, except per share data)

	1999A	2000A	2001E	2002E
Earnings				
Regulated Operations				
San Diego G&Ec	$193	$175	$179	$182
SoCalGas	200	206	210	214
TOTAL US Utilities	393	381	389	396
Non-Regulated				
Trading	$19	$155	$112	$112
International	2	33	39	45
Generation	5	33	45	50
Resources	(11)	(23)	(5)	0
Techology ventures	(8)	(11)	(10)	(5)
Financial	28	28	28	28
Parent and other	(20)	(137)	(125)	(110)
TOTAL Non-Regulated	15	78	84	120
TOTAL Earnings	408	459	473	516
Earnings per share				
Regulated Operations				
San Diego G&E	$0.81	$0.84	$0.88	$0.90
SoCalGas	0.84	0.99	1.04	1.06
TOTAL US Utilities	$1.66	$1.83	$1.92	$1.96
Non-Regulated				
Trading	$0.08	$0.74	$0.55	$0.55
International	0.01	0.16	0.19	0.22
Generation	0.02	0.16	0.22	0.25
Resources	(0.05)	(0.11)	(0.02)	0.00
Techology ventures	(0.03)	(0.05)	(0.05)	(0.02)
Financial	0.12	0.13	0.14	0.14
Parent and other	(0.08)	(0.66)	(0.62)	(0.54)
TOTAL Non-Regulated	$0.06	$0.37	$0.42	$0.59
Earnings per share	$1.72	$2.21	$2.34	$2.56
Average shares	237	208	202	202

Source: Company reports, Morgan Stanley Equity Research.

Exhibit 5

Sempra Energy

Income Statement, 1997A-2004E

($ millions, except per share data)	1997	1998	1999A	2000P	2001E	2002E	2003E	2004E	CAGR '00A-'04E
Operating Revenues									
Utility Revenues									
Natural gas	$2,964	$2,772	$2,924	$3,305	$3,378	$3,454	$3,532	$3,611	2.2%
Electric	1,769	1,865	1,818	2,184	2,269	2,298	2,334	2,370	2.1%
Other Operating Revenues	336	344	618	1,548	1,703	1,873	2,060	2,266	10.0%
Other Income	46	34	75	106	156	172	189	208	18.3%
Total Op. Revenues	5,115	5,015	5,435	7,143	7,506	7,797	8,114	8,455	4.3%
Operating Expenses									
Cost of natural gas distr.	1,168	954	1,164	1,599	1,658	1,694	1,731	1,769	
Elec. fuel/net purch. power	605	437	536	1,326	1,271	1,294	1,321	1,349	
Operating expenses	1,615	1,872	1,862	2,464	2,741	2,944	3,077	3,346	8.0%
Depr. and amort.	604	929	879	563	580	596	613	629	
Franchise pmts and other	178	182	181	180	180	180	180	180	
Pref'd divid. subsidiaries	18	12	11	26	26	26	26	26	
Total Op. Expenses	4,188	4,386	4,633	6,158	6,455	6,734	6,948	7,300	
Inc. Bef Int. and Taxes	927	629	802	985	1,051	1,063	1,166	1,156	
Interest	194	197	229	286	287	272	243	219	
Income Before Taxes	733	432	573	699	763	791	924	937	
Income Taxes	301	138	179	270	290	277	323	328	
Effective Tax Rate	*40%*	*31%*	*31%*	*39%*	*38%*	*35%*	*35%*	*35%*	
Net Income	**432**	**294**	**394**	**429**	**473**	**514**	**600**	**609**	
Average shares, basic	236	237	237	208	202	202	202	202	-0.8%
Average shares, diluted				208	202	202	202	202	-0.8%
EPS, recurring	**$1.90**	**$1.60**	**$1.72**	**$2.20**	**$2.34**	**$2.54**	**$2.97**	**$3.01**	**8.2%**
EPS, reported	$1.83	$1.24	$1.66	$2.06	$2.34	$2.54	$2.97	$3.01	
Divd's decl. per share	$1.27	$1.56	$1.56	$1.14	$1.00	$1.00	$1.00	$1.00	-3.2%

P = Preliminary, A = Actual, E = Estimate

Source: Company reports, Morgan Stanley Dean Witter Equity Research.

Exhibit 6

Sempra Energy

Cash Flow Statement, 1997A-2004E

($ millions, except per share data)

	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E
Cash Flow From Operations								
Net Income	$432	$294	$394	$429	$473	$514	$600	$609
Depreciation and amortization	604	929	879	563	580	596	613	629
Deprec. from genco sales	0		(303)	0	0	0	0	0
Bal. accounts to stranded costs	0	(86)	(66)	0	0	0	0	0
Deferred income taxes	(16)	(199)	(43)	(10)	(25)	(25)	(25)	(25)
Other	62	(94)	(87)	(750)	0	0	0	0
Unlevered AT Cash Flow	1,082	844	774	232	1,028	1,085	1,188	1,213
% Growth		*-22.0%*	*-8.3%*	*-70.0%*	*343.0%*	*5.5%*	*9.5%*	*2.1%*
Changes in working capital	(164)	479	414	0	0	0	0	0
Capital expenditures	(397)	(438)	(589)	(675)	(500)	(500)	(500)	(500)
Unlevered AT FCF	521	885	599	(443)	528	585	688	713
% Growth		*69.9%*	*-32.3%*	*-174.0%*	*-219.1%*	*10.8%*	*17.6%*	*3.6%*
Cash Flow From Investing								
Proceeds from genco sales	0	0	466	0	0	0	0	0
Invest. Chilq., Luz del Sur	(206)	(191)	(639)	0	0	0	0	0
Other	1	(50)	(27)	(50)	(50)	(50)	(50)	(50)
Cash (used) provided	(205)	(241)	(200)	(50)	(50)	(50)	(50)	(50)
Cash Flow From Financing								
Change in short-term debt	92	(311)	139	386	0	0	0	0
Common stock issuance	17	34	3	0	0	0	0	0
Common stock repurchases	(122)	(1)	0	(725)	0	0	0	0
Preferred trust issuance	0	0	0	200	0	0	0	0
Preferred stock retirement	0	(75)	0	0	0	0	0	0
Long-term debt issuance	140	75	160	740	0	0	0	0
Rate reduction bonds	658	0	0	0	0	0	0	0
Long-term debt retirement	(416)	(431)	(270)	(158)	(200)	(225)	(620)	(50)
Common stock dividends	(301)	(325)	(368)	(237)	(202)	(202)	(202)	(202)
Cash (used) provided	68	(1,034)	(336)	206	(402)	(427)	(822)	(252)
Change in cash & equiv	384	(390)	63	(287)	76	108	(184)	411
Cash & equiv. - Beg	430	814	424	487	200	276	384	199
Cash & equiv. - End	814	424	487	200	276	384	199	610
Cash Metrics								
After-tax cash flow	$1,020	$938	$1,164	$982	$1,028	$1,085	$1,188	$1,213
Cash flow per share	$4.33	$3.96	$4.90	$4.72	$5.09	$5.37	$5.88	$6.01
Free cash flow per share	$1.37	$0.74	$0.87	$0.33	$1.61	$1.90	$2.41	$2.53
Common divid's decl./sh.	$1.27	$1.56	$1.56	$1.14	$1.00	$1.00	$1.00	$1.00

A = Actual, E = Estimate

Source: Company reports, Morgan Stanley Dean Witter Equity Research

Exhibit 7

Sempra Energy

Capital Structure, 1998A-2004E

($ millions except per share data)

	1998	1999A	2000P	2001E	2002E	2003E	2004E
Capital Structure							
Short-term debt	$43	$182	$568	$568	$568	$568	$568
Long-term debt	3,125	3,057	3,636	3,436	3,211	2,591	2,541
Preferred equity	204	204	404	404	404	404	404
Common equity	2,913	2,986	2,494	2,765	3,077	3,476	3,883
Capital	$6,242	$6,247	$6,534	$6,605	$6,692	$6,471	$6,828
Capital Structure Ratio's							
Long-term Debt / Capital	50.1%	48.9%	55.6%	52.0%	48.0%	40.0%	37.2%
Debt / Total Capital	50.4%	50.4%	59.2%	55.8%	52.1%	44.9%	42.0%
Equity / Total Capital	46.3%	46.4%	35.1%	38.6%	42.4%	49.4%	52.5%
Preferred / Total Capital	3.2%	3.2%	5.7%	5.6%	5.6%	5.7%	5.5%
EBIT / Interest Expense	3.2x	3.5x	3.4x	3.7x	3.9x	4.8x	5.3x
Return on Average Equity	13.0%	13.8%	16.7%	18.0%	17.6%	18.3%	16.5%
Book value per share	$12.29	$12.58	$12.35	$13.69	$15.24	$17.21	$19.23

Capital = Sum of Long-term, preferred equity and common equity

Total Capital = Capital + Short-Term Debt

Source: Company reports, Morgan Stanley Dean Witter Equity Research.

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SEMPRA ENERGY ANNOUNCES INCREASED 2000 EARNINGS

New Businesses Continue to Grow, SDG&E Files to Manage Undercollected Power Costs

SAN DIEGO, Jan. 25, 2001 – Sempra Energy (NYSE: SRE) today reported unaudited 2000 earnings of $429 million, or $2.06 per diluted share, compared with $394 million, or $1.66 per diluted share, for the year 1999. Excluding business combination costs, 1999 earnings were $408 million, or $1.72 per diluted share.

Sempra Energy reported unaudited fourth-quarter 2000 earnings of $95 million, or $0.47 per diluted share, compared with $105 million, or $0.44 per diluted share, for the fourth quarter of 1999.

The higher earnings for the year were due primarily to improved results in the company's energy trading, generation and international operations. Earnings per share rose as a result of this business growth and the tender-offer repurchase of 36 million shares in the first quarter of 2000. The weighted average number of common shares outstanding (diluted) in 2000 decreased to 208.3 million from 237.6 million in 1999.

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Revenues for Sempra Energy increased 30 percent to $7 billion in the full-year 2000, compared with $5.4 billion in 1999. Included, in 2000, $447 million of accrued but uncollected revenue resulting from a temporary cap on electric rates of San Diego Gas & Electric (SDG&E).

"These results demonstrate our continued success in implementing our corporate strategy of growing our unregulated energy-service businesses," said Stephen L. Baum, chairman, president and chief executive officer of Sempra Energy. "These businesses made an increasing contribution to earnings in 2000 and represent important long-term growth opportunities for Sempra Energy.

"At the same time, our California regulated utilities and their customers are facing higher wholesale electricity and natural gas costs, and problems with California's flawed deregulation plan, as well as the broken wholesale electricity market."

Energy Delivery Services

Net income for SDG&E for the full year 2000 decreased to $145 million, compared to $193 million in the previous year. The primary reason for the decrease was an after-tax charge of 15 cents per share in the third quarter 2000, due to recent legislative and regulatory actions.

For the fourth quarter 2000, SDG&E reported net income of $38 million, compared to $35 million from the same period in 1999.

"State law currently subjects SDG&E to a retail rate cap, under which it charges customers far less for power than it costs the utility in the wholesale market, deferring the uncollected balance for future recovery in customer rates," Baum said. "No business can continue indefinitely under this formula."

Yesterday, SDG&E announced several measures intended to help it preserve its financial health and manage the utility's growing undercollection of the costs of purchasing electricity for customers.

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The measures included an application to the California Public Utilities Commission (CPUC) yesterday to implement a 2.3-cents-per-kilowatt-hour (kWh) surcharge on customer rates. If approved, the surcharge would help the company avoid the financial problems experienced by California's other two large investor-owned electric utilities. The rate surcharge is intended to manage the utility's growing undercollection of the costs of purchasing electricity for customers and provide for the amortization of these costs in customer rates.

Southern California Gas Company net income for the full-year 2000 rose to $206 million, compared with $200 million in 1999. The increase was due primarily to the sale of shares of Plug Power, a residential-fuel cell developer, and higher winter heating demand by commercial and industrial customers. For the fourth quarter 2000, Southern California Gas Company recorded net income of $56 million, down from $59 million in the same period in 1999.

Energy Trading

Sempra Energy Trading's net income grew to $155 million in the full-year 2000, compared to $19 million in 1999.

In the fourth quarter 2000, Sempra Energy Trading's net income increased to $52 million, compared with $10 million in the year-earlier period. The increase was primarily due to improved results in oil, natural gas and electricity trading in the United States and Europe amidst volatile international commodity markets.

Twenty-one percent of Sempra Energy Trading's net trading revenue came from trading power in the 11-state western region of the United States.

Sempra Energy Trading's physical trading volumes of natural gas were 8.9 billion cubic feet per day (bcfd) during 2000, compared with 5.8 bcfd in 1999. Trading volumes of crude oil and liquid products remained constant at 2.1 million barrels per day (mbd) in 2000. In the year 2000, the company traded 61.1 billion kWh of electricity in the United States and Europe, compared to 19.8 billion kWh in 1999.

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Independent Generation

Sempra Energy Resources, the wholesale power generation subsidiary of

Sempra Energy, reported net income of $33 million in 2000, up from $5 million in 1999. The subsidiary began operations at its first power plant in 2000, a 480-megawatt facility near Las Vegas jointly owned with Reliant Energy.

Fourth-quarter 2000 earnings from Sempra Energy Resources were $14 million, compared with $1 million during the same quarter last year.

During the fourth quarter 2000, Sempra Energy Resources received key regulatory approvals for two new gas-fired power-plant projects in California and Arizona. On Dec. 6, 2000, the California Energy Commission unanimously approved the Elk Hills Power Project, a 500-megawatt facility near Bakersfield, Calif. The second power plant, called Mesquite Power, a 1,000-megawatt facility near Phoenix, received approval from the Arizona Corporation Commission on Nov. 28, 2000, and the Maricopa County Board of Supervisors on Dec. 6, 2000. Both plants are expected to be completed in 2003.

International Operations

Sempra Energy International's net income grew to $33 million in 2000, compared to $2 million in 1999. The improvement was due primarily to full-year results of Chilquinta Energía in Chile and Luz del Sur in Peru, acquired in June and September 1999.

For the fourth quarter 2000, Sempra Energy International's net income grew to $9 million, compared with $5 million during the same quarter 1999.

Sempra Energy International passed a major regulatory hurdle in Mexico in December 2000, when it received a permit from the Energy Regulatory Commission to build the Mexican segment of the North Baja Pipeline. The 215-mile pipeline will transport natural gas from Arizona to power plants and industrial clients in Baja California, Mexico. The pipeline is expected to be completed by the third quarter 2002.

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Retail Energy Services

Revenues from Sempra Energy's retail energy services marketing operations in 2000 more than doubled to $596 million, compared with $273 million in 1999. Overall, the retail operations recorded a net loss of $23 million in 2000, compared with a net loss of $11 million in 1999, due to ongoing start-up costs. These operations are concentrated primarily in Sempra

Energy Solutions, which markets integrated energy services solutions to commercial, industrial and institutional customers.

Sempra Energy Solutions won several significant contracts during the quarter, including an agreement to supply fuel to the Los Angeles County Metropolitan Transportation Authority, operator of the world's largest natural-gas-powered bus fleet. The first year of supply is valued at $15 million and the contract is renewable for two additional years.

Sempra Energy Solutions also signed one-year, renewable energy services contracts worth more than $6 million with the MGM Grand Hotel and Casino and eight other MGM Mirage Properties in Las Vegas. In addition, the company began a 15-year energy-savings-performance contract for the Goodfellow Air Force Base near San Angelo, Texas.

During the fourth quarter, Sempra Energy announced the sale of its 72.5-percent stake in Energy America, a U.S.-based energy marketing firm with nearly 400,000 residential and small-business customers in six states, to Centrica plc for $56 million. The transaction, which closed on Jan. 22, 2001, will generate cash for reinvestment in other key areas of Sempra Energy's business strategy and is expected to increase the company's 2001 earnings by approximately 10 cents per share.

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Earnings Outlook

Baum said the company's earnings-per-share outlook for 2001 is approximately $2.20. Regulatory and political developments, particularly at the CPUC, Federal Energy Regulatory Commission and California State Legislature, as well as energy prices and volatility, could cause earnings to vary significantly from current expectations, he said.

Internet Broadcast

Sempra Energy will broadcast a live discussion of its earnings results over the Internet today at 1 p.m. Eastern Time with Baum, Neal E. Schmale, executive vice president and chief financial officer of Sempra Energy, and Frank H. Ault, vice president and controller of Sempra Energy. For access, log onto the Web site at www.sempra.com. For those unable to participate in the live Webcast, the teleconference will be available on replay a few hours after its conclusion by dialing (719) 457-0820 and entering passcode number 766925.

Sempra Energy (NYSE: SRE), based in San Diego, is a Fortune 500 energy services holding company with 12,000 employees and revenues of $7 billion. Through its eight principal subsidiaries -- Southern California Gas Company, San Diego Gas & Electric, Sempra Energy Solutions, Sempra Energy Trading, Sempra Energy International, Sempra Energy Resources, Sempra Communications and Sempra Energy Financial -- Sempra Energy serves more than 9 million customers in the United States, Europe, Canada, Mexico, South America and Asia.

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This press release contains statements that are not historical fact and constitute forward-looking statements. When we use words like "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "should" or similar expressions, or when we discuss our strategy or plans, we are making forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in the forward-looking statements. Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others: national, international, regional and local economic, competitive and regulatory conditions and developments; actions by the California Public Utilities Commission, the California State Legislature and the Federal Energy Regulatory Commission; capital market conditions, inflation rates and interest rates; energy markets, including the timing and extent of changes in commodity prices; weather conditions; business, regulatory and legal decisions; the pace of deregulation of retail natural gas and electricity delivery; technological developments; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the company's control. These risks and uncertainties are further discussed in the company's reports filed with the Securities and Exchange Commission that are available through the EDGAR system without charge at its Web site, www.sec.gov.

SEMPRA ENERGY

TABLE A

CONSOLIDATED INCOME STATEMENT (Unaudited)

In Millions of Dollars, Except Per Share Amounts	Three Months Ended December 31 2000	Three Months Ended December 31 1999	Twelve Months Ended December 31 2000	Twelve Months Ended December 31 1999
Revenues and Other Income				
California utility revenues				
Natural Gas	$ 969	$ 889	$ 3,305	$ 2,911
Electric	717	375	2,184	1,818
Other operating revenues	593	202	1,548	631
Other income	42	-	106	50
Total	2,321	1,466	7,143	5,410
Expenses				
Cost of natural gas distributed	511	395	1,599	1,164
Electric fuel and net purchased power	485	145	1,326	536
Operating expenses	865	542	2,464	1,837
Depreciation and decomissioning	143	130	563	879
Franchise payments and other taxes	42	55	180	181
Preferred dividends / distributions by subsidiaries	7	2	26	11
Total	2,053	1,269	6,158	4,608
Income Before Interest and Income Taxes	268	197	985	802
Interest expense	70	44	286	229
Income Before Income Taxes	198	153	699	573
Income taxes	103	48	270	179
Net Income	$ 95	$ 105	$ 429	$ 394
Weighted Average Shares Outstanding (Basic)*	201,760	237,402	208,155	237,245
Weighted Average Shares Outstanding (Diluted)*	202,703	237,563	208,345	237,553
Net Income Per Share of Common Stock (Basic)	$ 0.47	$ 0.44	$ 2.06	$ 1.66
Net Income Per Share of Common Stock (Diluted)	$ 0.47	$ 0.44	$ 2.06	$ 1.66
Dividends Declared Per Common Share	$ 0.25	$ 0.39	$ 1.00	$ 1.56

*In thousands of shares

KEY CONSOLIDATED BALANCE SHEET STATISTICS (Unaudited)

In Millions of Dollars, Except Per Share Amounts	December 31 2000	December 31 1999
Debt	$ 4,204	$ 3,239
Preferred Stock of Subsidiaries	204	204
Mandatorily Redeemable Trust Preferred Securities	200	-
Common Equity	2,494	2,986
Total Capitalization	$ 7,102	$ 6,429
Debt to Total Capitalization	59%	50%
Book Value per Share	$ 12.35	$ 12.58
Cash and Cash Equivalents	$ 637	$ 487

CPUC:Utils Not Liable For DWR Pwr Costs Above Rate Rev

02/22/2001 Dow Jones Energy Service (Copyright (c) 2001, Dow Jones & Company, Inc.) LOS ANGELES -(Dow Jones)-

The California Public Utilities Commission Thursday voted that the state's two largest utilities are not responsible for covering state power buys beyond what can be covered with their ratepayers' revenue.

The unanimous vote came minutes after a related decision to postpone voting on an item that would ensure the state is paid for all power purchases.

Dissenting commissioners said they feared the latter decision would send the utilities deeper into debt unless they were allowed to raise rates.

"I can't vote in conscience on this item today, because a revenue shortfall could potentially fall on utilities...The DWR is not about to go bankrupt; the utilities are," Commissioner Richard Bilas said.

The state's Department of Water Resources was given authority Jan. 19 to buy power in lieu of Edison International (EIX) utility Southern California Edison and PG&E Corp (PCG) unit Pacific Gas and Electric Co, whose cash and credit woes have made suppliers unwilling to sell to them.

The PUC ruling modified a Jan. 31 decision that if utility ratepayer revenue was inadequate to repay the DWR for power it was purchasing on the utilities' behalf, the utilities had to make up the difference.

The modification came at the request of utilities, who said it was at odds with what the legislature intended in allowing the state to buy power.

"Contrary to the Legislature's and the Governor's intent, (the PUC order) adds to the utilities' financial distress by unlawfully imposing on them the net losses from (DWR) power purchases," the utilities' petition said.

Thursday's ruling is, in essence, a temporary decision until commissioners can determine a more permanent mechanism by which the DWR will be paid for its power purchases, said PUC spokeswoman Kyle Devine.

The ruling did not address what portion of their ratepayer revenue the utilities must allocate to the DWR for its purchases.

Commissioner Bilas said he will work on a draft order for the March 15 meeting that would require the DWR to buy the entire net short of the state's electricity needs.

Currently, the DWR is only paying for the net short if it deems prices reasonable, and the utilities are being billed for the slack - a practice the Federal Energy Regulatory Commission opposed last week but which continued nonetheless.

"I'm aware there is a revenue shortfall; where to put that shortfall requires time and consideration. Let's deal with this on March 15," Bilas said.

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